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RUEHKO/AMEMBASSY TOKYO 2306  
RUEHIT/AMCONSUL ISTANBUL 2885  
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SIPDIS

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SUBJECT: TURKMENISTAN: DELAY OF COMPLETION OF GAS PIPELINE  
TO CHINA LIKELY

11. (U) Sensitive but unclassified. Not for Internet distribution.

12. (SBU) SUMMARY: In a recent statement released by the Turkmen state information agency, a detailed status report on the construction of the gas pipeline to China omitted mention of the long anticipated 2009 start of operations. Instead, the statement referred to deliveries to China "in coming years," a signal that gas would not flow in 2009. Possible explanations include insufficient production, a bottleneck further downstream in the pipeline, or constraints on the availability of Chinese capital. The delay could strengthen the perception of Russia as Turkmenistan's most reliable gas customer and export route. END SUMMARY.

GAS TO CHINA "IN COMING YEARS"

13. (SBU) An article, "Turkmenistan-China Gas Pipeline Takes On Real Contours," was released by the Turkmenistan State Information Agency on January 2. In addition to pointing out the long-term significance of the project in terms of export diversification and access to energy markets, the statement described in unusual detail the extent of work completed during 2008. Survey work and plans for the project were completed according to schedule, and construction work on the Turkmen section was proceeding at full speed. However, in the only reference to the timing of the pipeline's completion, which had previously been announced as sometime in 2009, the statement noted that Turkmenistan will begin delivery of its gas to China "in coming years."

CONSTRUCTION OF TURKMEN FEEDER PIPELINE UNDERWAY

14. (SBU) According to the state-owned monopoly Turkmengas, work is being carried out on a 188-kilometer gas pipeline from the Malay gasfield to Bagtyyarlyk gasfield on both sides of the Amu Darya River and at the river crossing itself. The terminus of this stretch will be at the Uzbek border, in

accordance with the Turkmen policy of selling its gas exclusively at its border. The general contractor for the project is the Russian firm "Stroytransgaz." According to its contract, construction will include a 1420 mm diameter pipe across the Amu Darya, gas processing facilities, and compressor stations built by the Belgian company ENEX, all at a cost in excess of 395 million euros.

#### SOURCES OF GAS FOR CHINA SPECIFIED

15. (SBU) The article pointed out that, according to the April 2006 pipeline agreement, Turkmenistan is required for 30 years to deliver to China up to 30 bcm of gas per year. It was noted that, based on the "confirmation by independent experts of colossal deposits of hydrocarbon resources," that figure would increase to 40 bcm in the future (NOTE: The additional 10 bcma was agreed in August 2008 and may have been offered in compensation for expected delays in the start of deliveries. END NOTE.) In the first stages of the pipeline's operation, Turkmen gas is obligated to deliver 17 bcma from the Malay and Udadzhi deposits. In addition, gas from the Bagtyyarlyk area (which is covered by the China National Petroleum Corporation ("CNPC") production sharing agreement) would provide the remaining 13 bcma. It was noted that CNPC became the only foreign company recently to be issued an operating license for exploration and extraction on land, and that for more than a year the company has been carrying out exploration and construction of related infrastructure.

#### CHINESE EXPLORATION AND CONSTRUCTION EFFORTS

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16. (SBU) In June 2008, construction began on the first of two planned gas refining plants (Block A) at the Samandepe gas deposit on the right bank of the Amu Darya. Besides removing hydrogen sulfide gas, the plant, with a capacity of five bcma, will produce solid sulphur. Towards the end of 2010, construction is planned for a second gas purification plant with a capacity of eight bcma (Block B), to be built at the Altyn Asyr deposit near Yashildepe. According to the State Hydrocarbons Agency, the project will be tied together by 68 kilometers of pipeline with a diameter of 914 mm. Welding is already completed on three kilometers and pipe put in place on 30 kilometers. From Block B to the Turkmenistan-Uzbekistan border, a ten kilometer pipeline with a diameter of 1067 mm will be constructed.

17. (SBU) COMMENT: Noticeably absent from the pipeline progress report was mention of the expected date for the initial shipment. According to the text of the 2006 pipeline agreement, article two provided that the Chinese side would buy Turkmen gas at the Turkmenistan border at the beginning of operation of the pipeline in 2009. They also agreed that gas would be provided from deposits on the right bank of the Amu Darya according to the PSA, but that if necessary, the Turkmen side guaranteed to provide an additional amount from other gas deposits. In a January 3 news item about the Turkmen statement, Russian news agency ITAR-TASS highlighted that no firm date to begin deliveries was mentioned, but rather deliveries "in years to come" that the Russians characterized as a postponement.

18. (SBU) COMMENT (CONT.): The delay in pipeline completion could have several causes. On January 3, state television reported that Turkmenistan plans to produce 75 bcm of gas in 2009, including 51.95 bcm for export. Gas production at the planned level would only be sufficient to meet export commitments to Russia and Iran in 2009. Despite CNPC's PSA for gas on the right bank of the Amu Darya, difficulties in developing those deposits could have delayed new production. There were also reports earlier in the year that delays in the completion of the Uzbek section of the pipeline would set back completion of the project until 2010. Finally, a local IOC representative suggested that the Chinese themselves

might have slowed the pace of construction in light of the global shortage of capital and related funding problems. Whatever the cause, the delay is a temporary setback for Turkmen efforts to enhance their pricing leverage through export diversification. END COMMENT.  
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